



# **POLICIES AND PROCEDURES**



CITY OF MURFREESBORO  
COMMUNITY DEVELOPMENT DEPARTMENT  
MICROENTERPRISE LOAN FUND

## POLICIES AND PROCEDURES

### PURPOSE

Murfreesboro's Microenterprise Loan Fund supports ***Priority #4 – Expand Economic Opportunities*** in the City's 2005-2010 Consolidated Plan. The purpose of the Microenterprise Loan Fund is to provide both technical and financial assistance to existing microenterprises or to persons developing a microenterprise.

Because a primary purpose of the loan program is the creation and retention of permanent jobs in Murfreesboro, businesses receiving assistance through the Microenterprise Loan Fund must be located within the City. The long-range goal of the program is to help microenterprise businesses grow and prosper and become viable candidates for traditional commercial financing.

Funds for Murfreesboro's Microenterprise Loan Fund come from the US Department of Housing and Urban Development through the Community Development Block Grant program as authorized in 24 C.F.R. 570.201(o). Any business activity receiving proceeds from the Microenterprise Loan Fund must comply with all applicable federal regulations. Loan proceeds may not be used for any activity deemed ineligible in 24 C.F.R. 570. Assistance through the Microenterprise Loan Fund is separate from any other economic development program in which the City might participate.

Technical Assistance for prospective borrowers will be provided through a partnership between the City and Middle Tennessee State University's Tennessee Small Business Development Center ("TSBDC"). The TSBDC counselors will work with prospective borrowers to prepare them for loan readiness, then continue to work with the borrowers' businesses after the loan has been issued.

Many small businesses stumble when faced with the need for professional accounting and tax services. The City has established a fund to help its borrowers by paying for such services during the first year of the loan. The TSBDC will assist the borrower in obtaining these services.

### ***Definitions (taken from 24 C.F.R. 570.201(o)):***

**"Microenterprise"** means a business having five or fewer employees, one or more of whom owns the business.

**"Person developing a microenterprise"** means any person who has expressed an interest in, and who is after an initial screening expected to be actively working towards, developing a business that is expected to be a microenterprise at the time it is formed.

## FUNDING

Minimum Loan - \$5,000

Maximum Loan - \$10,000

Interest Rates and Maximum loan term – sliding scale based on loan amount

Amount of loan	Maximum loan term	Interest Rate
Up to \$5,999	36 months	3%
\$6,000 to \$7,500	48 months	4%
\$7,501 to \$10,000	60 months	5%

The loan will be fully amortized. There will be no penalties for early repayment of the loan. Repayment is to be made monthly with the first payment due on the first business day of the month beginning 45 days after the initial disbursement of funds, and on the first business day of each subsequent month until the loan is repaid in full.

A late fee equal to 10% of the monthly payment (but not to exceed \$20) will be assessed to any loan which is not paid by the end of the tenth business day of the month in which the payment is due. Any late fee not paid within 30 days a loan payment due date will be added to the loan principal.

The City will consider a waiver to either maximum or minimum loan amount if such a course is recommended by the Tennessee Small Business Development Center.

## ELIGIBILITY

To be eligible for assistance from the Microenterprise Loan Fund, an applicant must meet the following income-eligibility criteria:

- A. Be a low- or moderate-income resident of the City of Murfreesboro. Or,
- B. If the applicant is not L/M income eligible,
  - i. the majority of the microenterprise's employees must be L/M income persons; or
  - ii. the microenterprise must be located in a predominantly L/M neighborhood and serve the L/M income residents of that neighborhood.

*For the purposes of determining whether an applicant or resident is low- or moderate-income, the City uses the table prepared annually by HUD to determine Section 8 eligibility. For further guidance concerning income eligibility, refer to Appendix B of the Policies and Procedures Manual for the City's Housing Rehabilitation Program.*

To be considered for a microenterprise loan, the applicant must also:

- A. Be the business owner. The business must be a sole proprietorship, partnership, limited partnership, corporation, LLC or other form of business recognized under Tennessee law. Before the loan closing, the applicant must provide proof the business has all permits, licenses and other documentation required by the City of Murfreesboro, Rutherford County and the State of Tennessee.
- C. Complete an instructional program provided by the Tennessee Small Business Development Center in Murfreesboro and be certified by the TSBDC as being loan ready.
- D. Complete the loan application provided by the Murfreesboro Community Development Department.
- E. Provide a business plan approved by the Tennessee Small Business Development Center.
- F. Provide current financial statements and a current credit report for the business owner.
- G. Receive a positive recommendation from a loan advisory panel comprised of volunteers from local lending institutions designated by the Community Development Director. Loan advisory panel members will review the application at the request of the Community Development Director.

## **THE APPROVAL PROCESS**

1. The Applicant must be certified as loan ready by the Tennessee Small Business Development Center.
2. The Applicant must receive a unanimous positive recommendation from the loan advisory panel after review of the loan application by the panel.
3. The Applicant must receive a positive recommendation from the Community Development Director after the Director has reviewed the recommendation of the loan advisory panel.
4. The Applicant must receive approval for the loan to be made through the Microenterprise Loan Fund from the City Mayor and the City Council.

Once the City Mayor and the City Council have approved the loan, the loan will be closed with the Applicant by the Community Development Department and funds will be disbursed.

Should there be conflicting recommendations or a recommendation not to approve a loan after review by members of the Loan Advisory Panel, the Community Development Department will forward the comments from the panel to the applicant and to the Tennessee Small Business Center with the hope that any negative issues can be resolved and a revised application can be resubmitted.

## **ELIGIBLE USE OF FUNDS**

Loan funds may be used for working capital, equipment and/or machinery. Working capital is defined as salaries, utility expenses, insurance, rent/mortgage payments, accounts payable and other operating costs that meet “arms-length transaction” guidance issued by the Department of Housing and Urban Development in 24 C.F.R. 570, Appendix A.

Loan funds may **not** be used for the owner’s salary; personal property purchases; refinancing existing debt; venture capital investments; loans to private clubs with restriction on membership or patronage; or any loan prohibited by local, state or federal law. No cost incurred prior to loan approval is an eligible use of funds.

No business shall be eligible for additional loan assistance through the Microenterprise Loan Fund if the business has an existing MLF loan.

## **SUBORDINATION**

For some borrowers, the loan from the Microenterprise Loan Fund will be the only financing available. For others, the City’s loan may be the “bridge” needed to qualify for financing from other sources. If such layered financing is available, the City may consider subordinating its interests. A request for subordination must be in writing from the borrower to the Community Development Department. The request must clearly indicate all financing involved and the position proposed for the City. A request for subordination is subject to the same approval process as the loan issued from the Microenterprise Loan Fund.

## **REPORTING REQUIREMENTS**

The loan recipient will be required to make timely reports on an annual basis to the Community Development Department using forms supplied by the Community Development Department. The Community Development Department reserves the right to require additional reports as needed. Guidance on reporting requirements will be provided at the loan closing.

## **COMMITMENTS**

Any material change in the financial condition of the applicant may result in the loan commitment being withdrawn.